



ANNUAL PROGRAM

AND FINANCIAL REPORT

STATE GROUP

INSURANCE PROGRAM

20  
03





STATE OF TENNESSEE  
DEPARTMENT OF FINANCE AND ADMINISTRATION  
INSURANCE ADMINISTRATION  
1300 William R. Snodgrass Tennessee Tower  
312 Eighth Avenue North  
Nashville, TN 37243

June 30, 2004

Ladies and Gentlemen:

We are pleased to submit the 2003 Annual Program and Financial Report of the Division of Insurance Administration. This unit of the Department of Finance and Administration manages insurance benefits for over 135,000 employees of and over 22,000 Medicare eligible retirees from public sector organizations in Tennessee.

The data presented here demonstrates trends from program, statistical and financial standpoints. The financial statements reflect the fiscal year ended June 30, 2003.

Calendar year 2003 was a period of some significant developments for the division and the insurance programs sponsored by the State of Tennessee. These developments include:

- Benefit payments for medical treatment by the State, Local Education and Local Government Plans exceeded \$789 million during 2003
- Benefit costs growth moderated some during 2003 compared to the double digit rates of increase for the previous years
- For the first time in three years, revenues exceeded expenses for the health insurance coverage offered through the State Plan
- For the second year in a row, revenues exceeded expenses for the health insurance coverage offered through the Local Education Plan
- For the first time since 1999, revenues exceeded expenses for the health insurance coverage offered through the Local Government Plan
- All three plans experienced improved financial status due to these gains; the State and Local Education Plans were fully reserved at year end
- Through changes in the contractor provided decision support system, improved clinical and pharmacy data became available to plan management
- The division ended, through a competitive procurement, a 20 year relationship with Mercer Human Resource Consulting and began receiving consulting advise from Mellon Human Resources and Investor Services

It is our intent to demonstrate through this report our continuing commitment to

- Provide affordable, quality benefits to public sector employees and retirees
- Expand the use of electronic communication
- Improve computer systems to provide for the effective recording of eligibility and accounting activity
- Sponsor managed care health plans with accessible and consistent provider networks
- Conduct effective assessments of trends in healthcare utilization and benefit costs
- Hold our contract partners accountable for their performance
- Demonstrate value to plan participants when they compare benefit payments with employer and employee contributions
- Be good stewards of public sector funds

While the State Group Insurance Program sponsors the coverages and programs reviewed in this report, we work in partnership with 11 contractors and a number of other state agencies to deliver services to program participants. The results reported here reflect their contribution, as well.

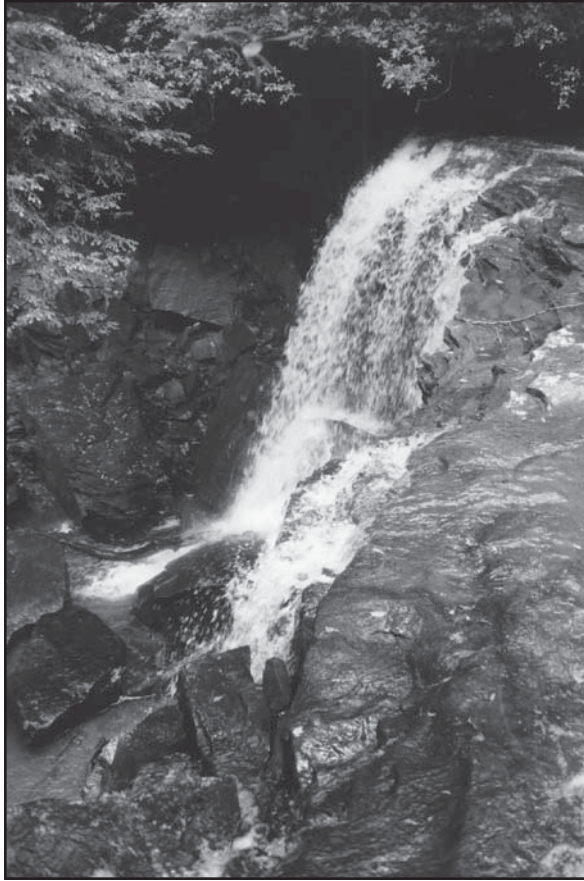
Sincerely,

A handwritten signature in black ink, appearing to read "Richard Chapman". The script is fluid and cursive.

Richard Chapman, Director

A handwritten signature in black ink, appearing to read "M. D. Goetz Jr.". The script is fluid and cursive.

M. D. Goetz Jr., Commissioner



COVER PHOTO  
Upper Polly Branch Falls  
Caney Fork River Gorge



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FINANCIAL STATEMENTS



Tennessee Department of Finance and Administration. Authorization Number 317238, 1,000 copies, June 2004.  
This public document was promulgated at a cost of \$2.34 per copy.

## Division Overview

The Division of Insurance Administration operates within the State of Tennessee's Department of Finance and Administration. A committed staff of 38 works to administer health, dental, life and long-term care insurance coverages for over 284,000 public sector employees, retirees and their covered dependents.

In addition to insurance coverages, the division also administers an Employee Assistance Program and a State Employee Wellness Program. These related programs complement insurance programs by educating employees and their families about prevention and behaviors that can affect their physical and mental health.

State Group Insurance Program participants include state government and higher education employees, as well as employees of local school systems and local government agencies who elect to participate in one of the state-sponsored plans. Various quasi-governmental and nonprofit agencies receiving state support may also elect to participate in the Local Government Plan.

Currently, the Preferred Provider Organization (PPO), administered through BlueCross BlueShield of Tennessee, is available statewide to all participants.

A Point of Service (POS) option is also available statewide. POS offerings in 2003 included: BlueCross BlueShield—West and Middle and John Deere Health—East.

Health Maintenance Organizations (HMOs) are offered in 60 of Tennessee's 95 counties. HMO offerings in 2003 were: Aetna Memphis, Aetna Nashville, John Deere Health Chat-

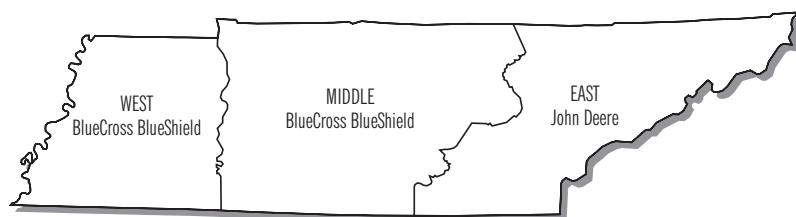
tanooga, John Deere Health Knoxville and John Deere Health Tri-Cities.

In addition to health insurance, optional dental coverage, underwritten and administered by Fortis Benefits Insurance Company, is available to participants in all three plans. State employees are provided basic term and accidental death and dismemberment through Fort Dearborn Life while the optional term and universal life coverages are underwritten by UnumProvident Life and Accident. Long-term care insurance is available to state employees, retirees and eligible family members through MedAmerica Insurance Company.

### Enrollment Highlights

Total Group Health Lives	261,947
Employees:	
State PPO	33,766
State HMOs	22,332
State POSs	16,132
Local Education PPO	27,015
Local Education HMOs	5,160
Local Education POSs	14,277
Local Government PPO	6,318
Local Government HMOs	4,685
Local Government POSs	5,412
Total Employee Group Health	135,097
Optional Dental Coverage	35,247
Optional Life Insurance Products	66,145
Optional Long-Term Care Coverage	2,713
Retiree Medicare Supplement	22,724

**Point of Service (POS) Service Area**



**Health Maintenance Organization (HMO) Service Area**





## Governance

The authorization for providing group insurance benefits for public officers, state, local education and local government employees and retirees is found in Chapter 27 of Title 8, Tennessee Code Annotated.

The benefit plans authorized by this legislation are governed separately by three committees identified as the State, Local Education and Local Government Insurance Committees. Each of these committees represents the interests of the employer(s) and their employees and retirees in financially separate benefit plans.

### Committee Members

**M. D. Goetz Jr., Chairman** — S, E, G  
Commissioner  
Department of Finance and Administration

**John G. Morgan** — S, E, G  
Comptroller of the Treasury

**Steve Adams** — S, E, G  
State Treasurer

**Paula Flowers** — S, E  
Commissioner  
Department of Commerce and Insurance

**Jeannie Bellephant** — S  
Employee Representative

**Debbie Johnson** — S  
Higher Education Representative

**Nat Johnson** — S  
Designee, Department of Personnel

**Linda McCarty** — S  
Tennessee State Employee Association

**Tom Spillman** — S  
Employee Representative

The responsibilities of each committee can be summarized under four broad areas:

- 1) To establish the benefit plans offered.
- 2) To approve premiums necessary to fund plan operations.
- 3) To provide for the administration of certain plan functions through the selection of contractors and monitoring of vendor performance.
- 4) To establish and review policy related to eligibility, benefits and appeals.

**Donna Barber** — E  
Middle Tennessee Teacher Representative

**Jim Jones** — E  
Designee, Department of Education

**Clark Justis** — E  
East Tennessee Teacher Representative

**Josephine King** — E  
West Tennessee Teacher Representative

**Phillip White** — E  
Tennessee School Boards Association

**Randy Williams** — G  
Tennessee Municipal League

**Bob Wormsley** — G  
Tennessee County Services Association

S — State Insurance Committee

E — Local Education Insurance Committee

G — Local Government Insurance Committee



## Contract Partners

### **BlueCross BlueShield of Tennessee**

Providing for administration of healthcare coverage for plan members in the Preferred Provider Organization (PPO), Point of Service (POS) Middle and West and Medicare Supplement Programs.

### **John Deere Health**

Providing for administration of healthcare coverage for plan members in the Point of Service (POS) East and Health Maintenance Organization (HMO) East.

### **Aetna**

Providing for administration of healthcare coverage for plan members in the Health Maintenance Organization (HMO) Memphis and Nashville.

### **Fort Dearborn Life Insurance Company**

Providing basic term and accidental death and dismemberment insurance for state plan members enrolled in a healthcare option.

### **UnumProvident Life and Accident Insurance Company**

Providing optional term and universal life insurance to state plan members who choose to enroll in this coverage.

### **Fortis Benefits Insurance Company**

Providing dental insurance to participating plan members statewide.

### **United Behavioral Health**

Providing employee assistance program (EAP) services to all plan members and administration of mental health and substance abuse coverage for plan members in the Preferred Provider Organization (PPO) and Point of Service (POS) healthcare options.

### **MedAmerica Insurance Company**

Providing long-term care coverage to state plan members and their eligible family members who choose to enroll in this coverage.

### **Harris Health Trends**

Providing support for wellness program services for central state plan members enrolled in a healthcare option.

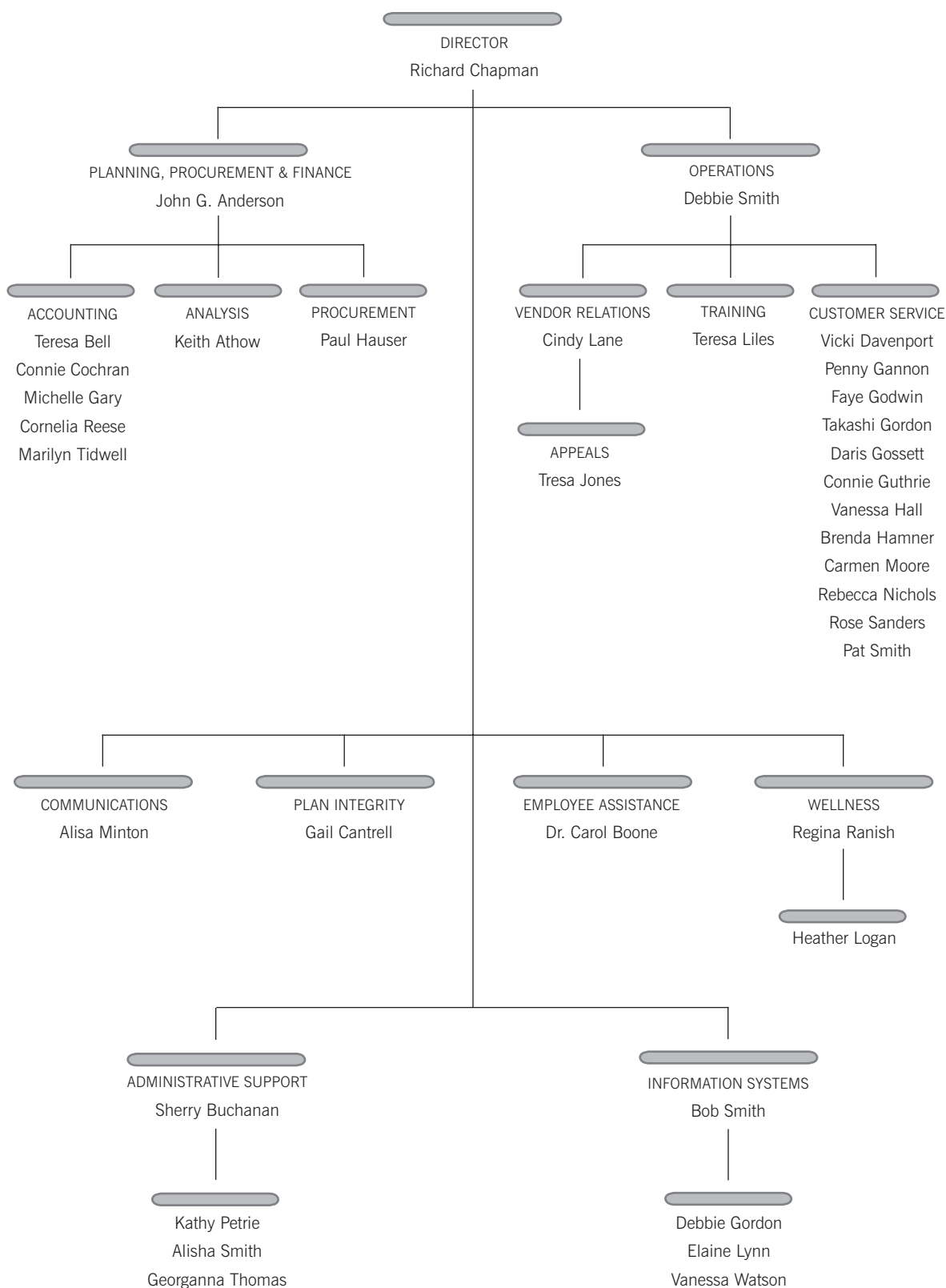
### **The Medstat Group**

Providing analytical services to assess healthcare utilization and claims-based cost for our population.

### **Mellon Human Resources and Investor Services**

Providing benefits and administrative consultant services to the division.

# Organization Chart



## Accomplishments

The appeals process established by the Insurance Committees received 334 requests for a benefits review; 105 were resolved by the division appeals coordinator without the need for a formal written appeal. The remaining 229 filed a formal written appeal with 130 cases resolved during initial review between the division and the claims administrator. Of the 70 cases reviewed by the Staff Review Appeals Committee, 23 were approved, 45 denied and 2 deferred. The remaining 29 cases were still pending decisions at the end of the year.

The division processed 112 requests for a waiver of premium due to disability with 94 requests being approved and 18 denied.

During 2003, premium quotes were requested from 88 agencies interested in joining the Local Government and Local Education Plans. Of those, 24 agencies joined the Local Government Plan and 2 joined the Local Education Plan.

A total of 960 individuals applied for coverage through the medical underwriting or proof of insurability process. Of those, 150 employees and 126 dependents were approved and allowed to enroll in coverage.

The division's eligibility team reviewed 47 cases. Of these, 29 were approved and 18 denied.

Thirty-five insurance preparer training classes and eight annual transfer meetings were held across the state, with 421 and 519 in attendance respectively.

A significant amount of time and resources were devoted to implementing the privacy and security requirements for individual protected health information as required under the Federal HIPAA rules and regulations. The division met all required dates and handled consulting contracts in order to assist 11 other state agencies in meeting HIPAA compliance.

Working with the contracted HMO provider in East Tennessee, John Deere Health, 13 expansion counties were added to the service area where there was previously no HMO offering allowing participants who live or work in that service area a third healthcare option.

Through a competitive procurement process, Fort Dearborn was selected for the continued provision of basic term life insurance benefits. Based upon the new premium rates, the state's contribution will decline by nearly \$500,000 in 2004 and employee deductions will decline by about \$400,000.

Working with the contracted vendor, MedAmerica, the division implemented a new long-term care insurance product for eligible state plan participants and their family members. Unlike previous start-up efforts, a substantial amount of enrollment information was provided through electronic means to eligible state employees.

A number of contracts were extended to allow for the continued provision of services. These include Aetna HMO administrative services for Nashville and Memphis; UnumProvident Life Insurance for optional term and universal life insurance for state employees; BlueCross BlueShield of Tennessee for POS administrative services in the west and middle service areas; and United Behavioral Health for Integrated Employee Assistance and Mental Health Substance Abuse benefits. In keeping with an initiative by the Bredesen administration, administrative fees for 2004 remained at 2003 levels.

Communication projects completed during the year include the update and distribution of Insurance Preparer Policy and Procedures manuals, Plan Documents specifically designed for the three separate state-sponsored plans and a brochure outlining the provisions of continuing insurance coverage under COBRA. A HIPAA notice of privacy practices was also completed and mailed to all plan participant's homes.

The division continues to expand the information provided on our web site to allow participants ease of access to information, forms and publications. In addition to the division produced forms and publications provided on the site, all vendor handbooks were also made available. Over 117,000 publications and forms were downloaded from the site during the year.

The Employee Assistance Program increased its employee utilization in the area of direct counseling services from 5.2 percent to 5.4 percent. Additionally, the number of training activities reached a record number of 724.5 hours for the year.

The Employee Assistance Program, upon invitation from UBH, participated in the Harvard Medical School and Workplace Study. Over 5,000 state employees volunteered to become involved in the study which examined the relationships between depression, physical health and job performance.

At the request of local governments, a high deductible option was developed for the Local Government Plan as an optional PPO offering. Although enrollment for 2004 was fairly low, this development represents a precursor to efforts to move toward "customer driven healthcare plans."

## Accomplishments

During 2003, the division provided detailed information concerning benefit plan changes, their cost and comparisons with other public and private sector plans to the Insurance Committees and Tennessee's political leadership. As a result, a blend of premium increases and benefit modifications were put in place for 2004, a change from three years of premium increases only.

## Opportunities

Given the double digit increases in medical plan cost that are anticipated to occur in the future, the division will continue to work with the Insurance Committees in order to develop future strategies to mitigate the impact of these increases for plan members and their employers.

In an effort to control increasing pharmacy costs, the pharmacy benefit in the POS and HMO options will be changed to a three-tiered benefit structure beginning in January 2004. Additionally, a home delivery option will be added to all healthcare options allowing members to obtain extended prescription for up to a 102 day supply for one copay.

During 2004, a number of contracts will either be extended or the services will be continued as a result of a competitive procurement process. These include: BlueCross BlueShield of Tennessee PPO administrative services statewide; BlueCross BlueShield of Tennessee POS administrative services for the middle and west service areas; John Deere Health POS administrative services for the east service area; Aetna HMO administrative services for Nashville and Memphis; Fortis Benefits administrative services for the Prepaid Dental Plan; and BlueCross BlueShield administrative services for the Medicare Supplement Plans.

Several contracts will expire at the end of 2004 and the division will issue Requests for Proposals to re-procure these services. These include: Integrated Employee Assistance, Mental Health and Substance Abuse benefits; administration of Health Maintenance Organization benefits in the eastern service areas; Optional Preferred Dental Organization coverage; and Optional Term and Universal Life coverages.

In an effort to accommodate plan members impacted by a failure by BlueCross BlueShield and Hospital Corporation of America to reach a network participation agreement, the state sponsored plans permitted plan members to switch health option selection during the entire year.

During the next two years, the division will examine the new federal "Medicare Prescription Drug Improvement and Modernization Act of 2003" in particular the new pharmacy benefits under Medicare Part D and their impact on benefits provided to eligible Medicare retirees. Any necessary benefit changes resulting from this new law will be considered by the Insurance Committees.

Due to the interest of participating employers and changes in federal law, additional consideration will be given to the development of health spending accounts and "consumer driven" healthcare benefit designs.

Given the increased focus on obesity as a healthcare concern, the division will sponsor, through the State Employee Wellness Program, a program nicknamed "Peel the Pounds." This initiative is intended to help participants initiate behavior changes to reduce weight and result in long-term improvement in eating and exercise habits.

The Employee Assistance Program will continue to enhance the quality and access to EAP services, striving to increase the average yearly utilization rate of 5 percent for direct counseling contacts.

The Employee Assistance Program will participate in national screening projects to address employee problems affecting the workplace including alcohol, anxiety, depression, eating and post-traumatic stress disorders.

## State Plan

State employees, University of Tennessee and Board of Regents employees comprise the State Plan. This plan provided coverage for 72,230 active employees, COBRA participants and qualified retirees.

For 2003, the portion of plan members selecting the POS option continued to increase, growing from 13,655 to 16,132. HMO selection declined from 24,432 to 22,332 while PPO participation declined slightly from 34,142 to 33,766.

Employees may choose to participate in optional dental insurance. One prepaid dental plan and one preferred provider dental plan were available. State employees electing dental coverage totaled 28,619 at year end, an increase of 1,054 during the calendar year.

During 2003, Fort Dearborn received over \$9.7 million in premium for the basic term life and the accidental death and dismemberment coverages. Expenses reported for 2003 included \$8.8 million in basic term and accidental death and dismemberment claims and \$473,000 in optional accidental death and dismemberment claims. Administrative, reserving and conversion expenses and taxes were \$428,000.

Employee term life benefits exceeded \$7.4 million and were paid on behalf of 177 employees who died during 2003. An additional \$1.2 million in employee accidental death and dismemberment benefits were provided by the plan. Employees received \$411,000 in benefit payments due to the death of a covered dependent and over \$273,000 due to an accident involving the death or dismemberment of a dependent.

At 2003 year end, 12,961 employees were covered under the optional term life insurance plan, in addition to 5,943 spouses and 7,004 children. The coverage for employees exceeded \$910 million, spouse coverage was just under \$120 million and the child term rider amount was \$27.7 million. Premiums for 2003 were \$4.4 million, while claims totaled \$3 million.

The optional universal life covered 7,382 employees and 1,372 spouses who maintained over \$332 million in coverage. About \$2.8 million of the annual premium paid for the life benefit with annual claims of \$2.8 million. At the end of December, the employee cash value had grown to more than \$61.5 million.

Benefit payments by the State Plan continued to increase for the fifth year in a row. For the PPO option, total gross payments per capita increased by 9.7 percent to \$4,333 for 2003. Inpatient benefits increased by 7.4 percent while outpatient costs grew by 9.6 percent. The increase in inpatient payments was due to both increased utilization and a 1 percent increase in the cost of each inpatient day to \$2,514 for 2003.

Total gross payments per capita for the POS increased by 11 percent to \$3,140 for 2003. Inpatient payments increased by 7.7 percent due to a combination of increased utilization and an increase in payments per inpatient day. Payments for outpatient services increased by 11.6 percent.

For the PPO, pharmacy plan benefit payments were \$1,014 per capita — an 21.1 percent increase over 2002. For the POS, plan payments were \$675 per capita — a 17.1 percent increase over 2002.

The State Plan paid 85 percent of the eligible PPO expenses and 92 percent of the POS eligible expenses during 2003, while the remaining 15 and 8 percent respectively were paid by the plan member. The plan's payment on the PPO share increased by 1 percentage point and the POS by 2 percentage points when compared to 2002. The benefits paid by the HMO were 92 percent of eligible expenses — constant when compared to 2002.

The increasing price and utilization of medical services (outpatient care) and prescription drugs will continue to have impact on the future increase in plan benefits. Demographic changes including the aging of the active workforce and the growth in the number of retirees will also place demands on the future growth of plan costs.

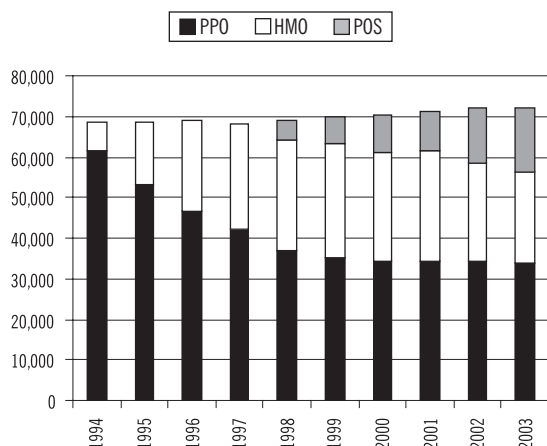
## Health Contracts

<b>Preferred Provider Organization (PPO)</b>			
BlueCross BlueShield	33,766		
Percent of Total		46.7%	
<b>Health Maintenance Organization (HMO)</b>			
Aetna Nashville	8,273		
Percent of Total		11.5%	
Aetna Memphis	4,686		
Percent of Total		6.5%	
John Deere Health Knoxville	4,928		
Percent of Total		6.8%	
John Deere Health Chattanooga	2,212		
Percent of Total		3.1%	
John Deere Health Tri-Cities	2,233		
Percent of Total		3.1%	
<b>Point of Service (POS)</b>			
West — BlueCross BlueShield	4,824		
Percent of Total		6.7%	
Middle — BlueCross BlueShield	7,972		
Percent of Total		11.0%	
East — John Deere Health	3,336		
Percent of Total		4.6%	

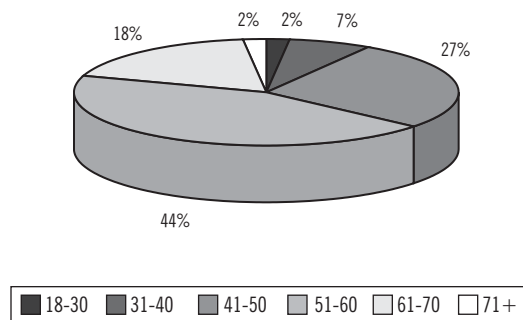
## Optional Insurance Contracts

	DEC. 31, 2003	DEC. 31, 2002
<b>Dental Insurance</b>		
Prepaid Plan	21,045	20,990
Preferred Provider Plan	7,574	6,575
Total Dental	28,619	27,565
<b>Optional Life Coverages</b>		
Term Life	25,908	25,612
Universal Life	8,754	8,919
Special Accident	30,581	30,875
Perma Plan	902	999
Total Life	66,145	66,405
<b>Long-Term Care Insurance</b>		
Employees	2,098	—
Retirees	78	—
Eligible Family Members	537	—
Total Long-Term Care	2,713	—

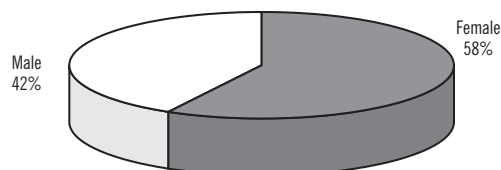
## Total Contracts by Healthcare Option



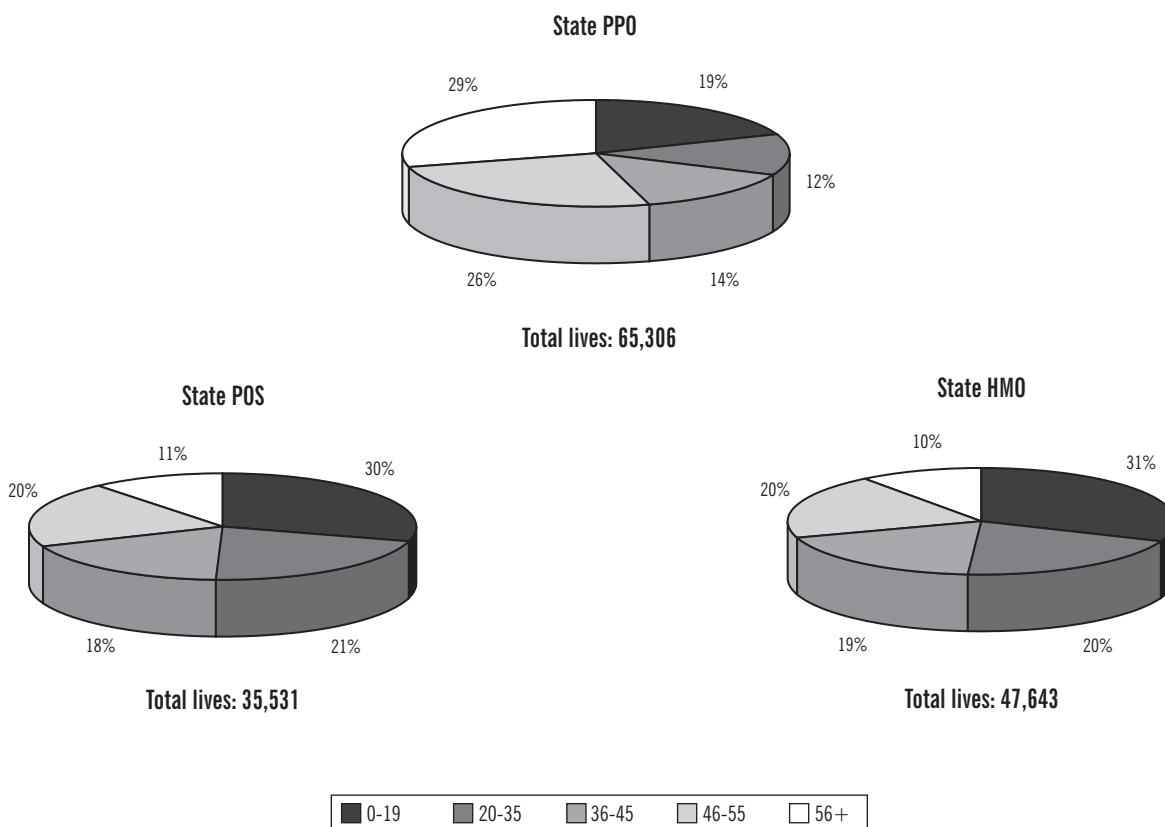
## Long-Term Care Enrollment Demographics



## Long-Term Care Enrollment by Gender



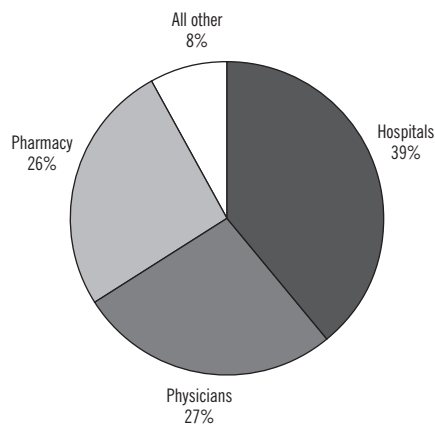
## Health Enrollment Demographics



## Benefits Distribution by Provider Type (Paid Claims)

State Plan PPO, POS and HMO Total Disbursements: \$445,619,543 (amount reflects all health vendors submitting data to Medstat in 2003)

Total self-insured paid claims for 2003 increased from \$401,285,584 in 2002. As with the Local Education and Local Government plans, the proportionate amount paid to each provider type remained similar. As a percent of the total, payments to hospitals and pharmacies were basically flat when compared to 2002, while there was a decrease in payments to physicians.

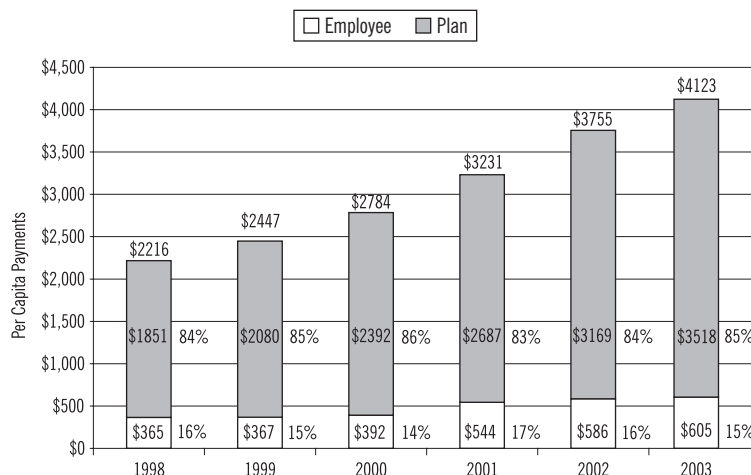




## PPO Per Capita Payments

Employee portion represents deductibles and coinsurance/copays.

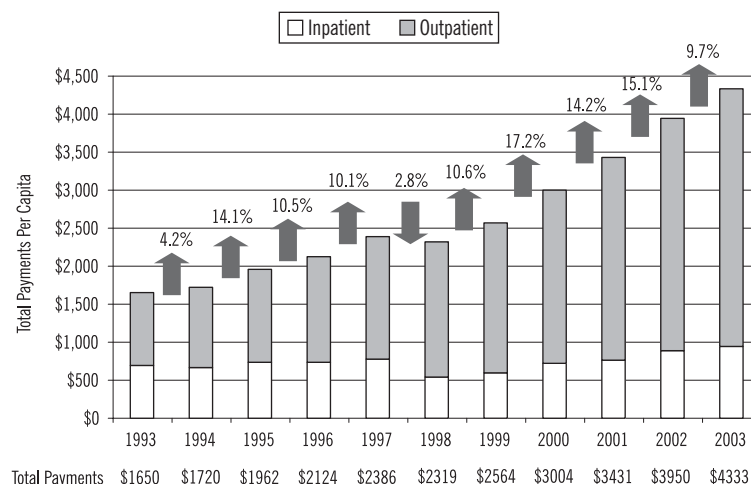
Percentages indicate portion of medical expenses paid by employee or plan.



## PPO Total Payments Per Capita

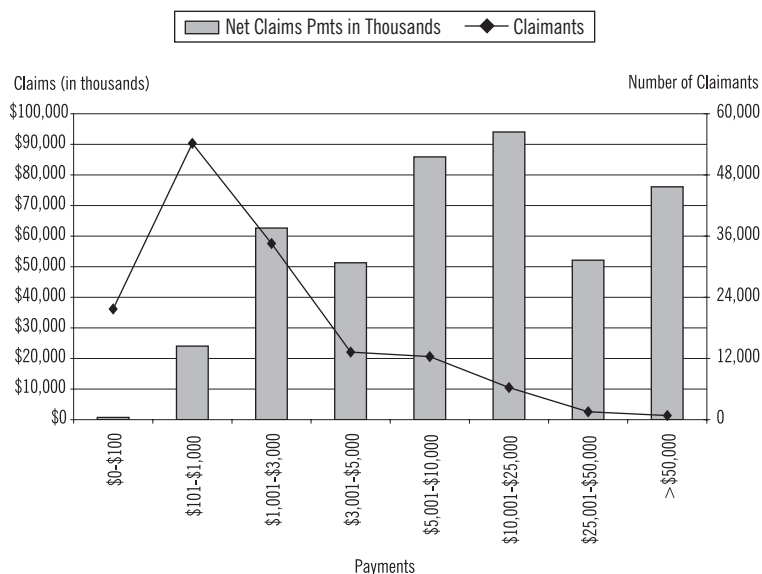
Includes all plan payments and patient payments for deductibles and copayments. (incurred data)

For 2003, payments for outpatient services represented 78 percent of the total — up from 58 percent in 1993. Outpatient payments grew at a rate of 25 percent per year between 1993 and 2003. Payments for inpatient services grew at almost 3.7 percent per year.



## Paid Claims Distribution by Individual

About 6 percent of the plan members received benefits in excess of \$10,000 and accounted for 50 percent of the benefit payments. The average benefit for this group was \$25,728.



# State Employee Wellness Program

The State Employee Wellness Program was initiated in 1992. It is designed to improve awareness of the factors that can affect health and longevity, as well as to enable employees to take increased responsibility for their health by adopting healthier life-styles. The program is funded, in part, through flexible benefits savings. The information on this page provides components and participation for the various programs offered by the State Employee Wellness Program.

## Screenings

In 2003, screenings were held at 20 sites. A total of 2,377 participants were screened, averaging 119 participants per site. Results showed 11.5 percent of participants with cholesterol levels above 239 and 27.5 percent with elevated blood pressure. Additionally, 48.2 percent of participants were 30 percent or more above ideal body weight and 47.3 percent of participants indicated that they exercised two times per week or less.

## Focused Intervention

Employees participating in screenings who were identified as having two or more high risks were invited to participate in the focused intervention or high-risk program. The program was used by 251 employees. Each participant receives intervention telephone calls and follow-up calls by a health educator over the course of a year.

## Toll-Free HealthLine

The HealthLine received 2,693 calls. Health educators answer this line and initiate calls to participants as well. Outgoing calls numbered 1,034.

## Seminar Series

During 2003, two new titles were added to the seminar program: Basic Nutrition Facts and Take Control of Diabetes. A total of 447 employees participated in one or more of the seminars presented.

## Babies First Prenatal Program

Designed to encourage early prenatal care, the program is open to female employees, spouses and dependents in the Preferred Provider Organization (PPO) or a Point of Service (POS) plan administered by BlueCross BlueShield. The program provides a \$50 credit or refund to the mother's deductible and copies of two books dealing with newborns. Participation in the program totaled 320 in 2003.

## Working Well Newsletter

Working Well is an informative newsletter highlighting the State Employee Wellness and Employee Assistance Programs. The newsletter was published six times in 2003 and distributed via state payroll envelopes to approximately 45,000 employees.

## Fitness Center Discount Program

Fitness centers across the state provide membership discounts to participants in the State Group Insurance Program.

## Local Education Plan

In 1985, the Tennessee General Assembly authorized creation of an insurance plan for local education employees. Funds were appropriated to pay part of the premiums for participating employees beginning January 1, 1986. School systems within the state may join the Local Education Plan or must provide alternative coverage that is equal or superior to the state-sponsored program.

At 2003 year end, 125 school systems and educational co-ops were participating in the Local Education Plan. Plan enrollment was 46,452 — up from 44,981 in 2002. The portion of plan members selecting the POS option continued to increase, growing from 9,738 to 14,277. PPO enrollment increased slightly to 27,015 while HMO selection decreased to 5,160.

Dental insurance is available as an option to participants in the Local Education Plan. Participation in the dental plan increased from 4,389 in 2002 to 4,514 in 2003.

Life insurance and long-term care coverage are not available options to members in the self-insured Local Education Plan.

In 2003, there was a 14.6 percent increase in the total gross payments per capita for PPO members. The increase was attributable to both increasing outpatient and inpatient costs which were pushed by increased utilization and price. The cost of hospitalization increased from \$2,386 to \$2,524 per day due in part to increased utilization.

Total gross payments per capita by the POS option increased by 9.7 percent primarily due to increasing outpatient expenses. Increases in utilization of services pushed up both inpatient and outpatient benefit payments. Total gross per capita payments by the HMO option increased by 16.7 percent when measured against 2002.

Pharmacy costs continue to impact the growth of benefit payments under the Local Education Plan. For the PPO option, cost for prescription drugs increased from \$711.60 in 2002 to \$880.67 in 2003, representing an increase of 23.8 percent over one year. As a result of the increase in pharmacy, benefit modification were made to plan options effective for the 2004 plan year.

### Health Contracts

#### Preferred Provider Organization (PPO)

BlueCross BlueShield	27,015
Percent of Total	58.2%

#### Health Maintenance Organization (HMO)

Aetna Nashville	535
Percent of Total	1.2%
Aetna Memphis	526
Percent of Total	1.1%
John Deere Health Knoxville	2,761
Percent of Total	5.9%
John Deere Health Chattanooga	515
Percent of Total	1.1%
John Deere Health Tri-Cities	823
Percent of Total	1.8%

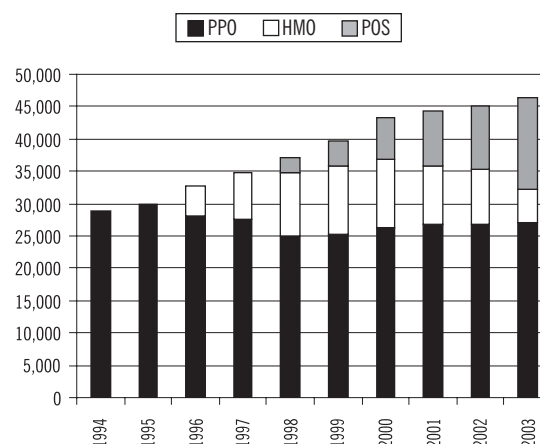
#### Point of Service (POS)

West — BlueCross BlueShield	2,126
Percent of Total	4.6%
Middle — BlueCross BlueShield	5,050
Percent of Total	10.9%
East — John Deere Health	7,101
Percent of Total	15.3%

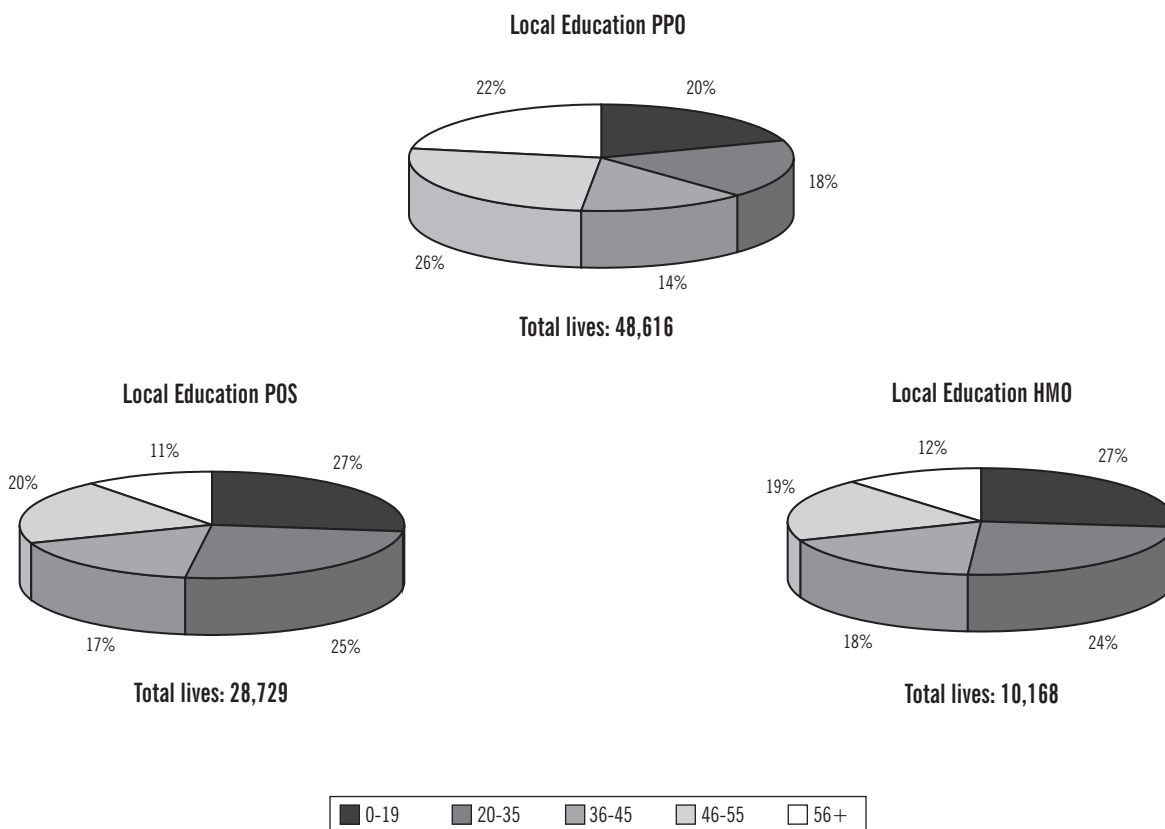
### Optional Insurance Contracts

	DEC. 31, 2003	DEC. 31, 2002
<b>Dental Insurance</b>		
Prepaid Plan	1,571	1,565
Preferred Provider Plan	2,943	2,824
Total Dental Insurance	4,514	4,389

### Total Contracts by Healthcare Option



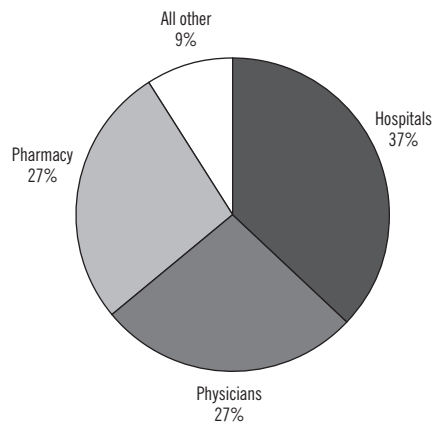
## Health Enrollment Demographics



## Benefits Distribution by Provider Type (Paid Claims)

Local Education Plan PPO, POS and HMO Total Disbursements: \$245,380,977 (amount reflects all health vendors submitting data to Medstat in 2003)

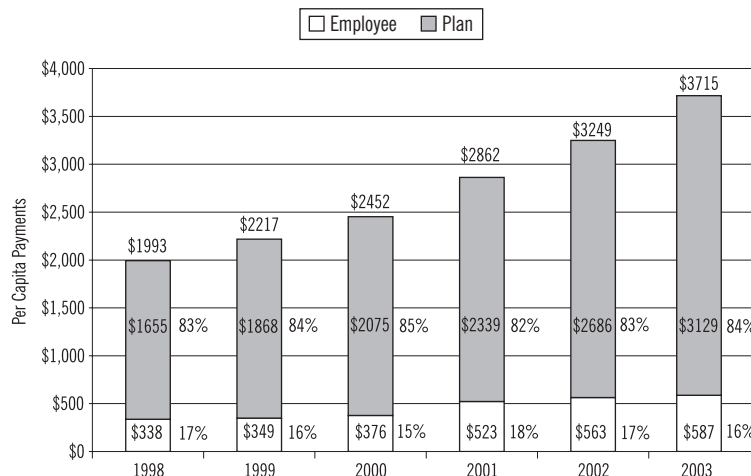
Total self-insured paid claims for 2003 increased from \$209,303,869 in 2002. As with the other plans, the proportionate amount paid to each provider type remained similar. As a percent of the total, payments to hospitals and pharmacies were basically flat when compared to 2002, while there was a decrease in payments to physicians.



## PPO Per Capita Payments

Employee portion represents deductibles and coinsurance/copays.

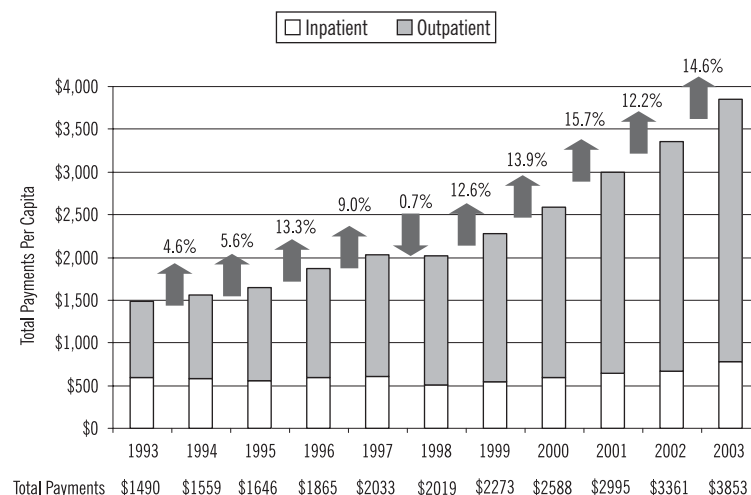
Percentages indicate portion of medical expenses paid by employee or plan.



## PPO Total Payments Per Capita

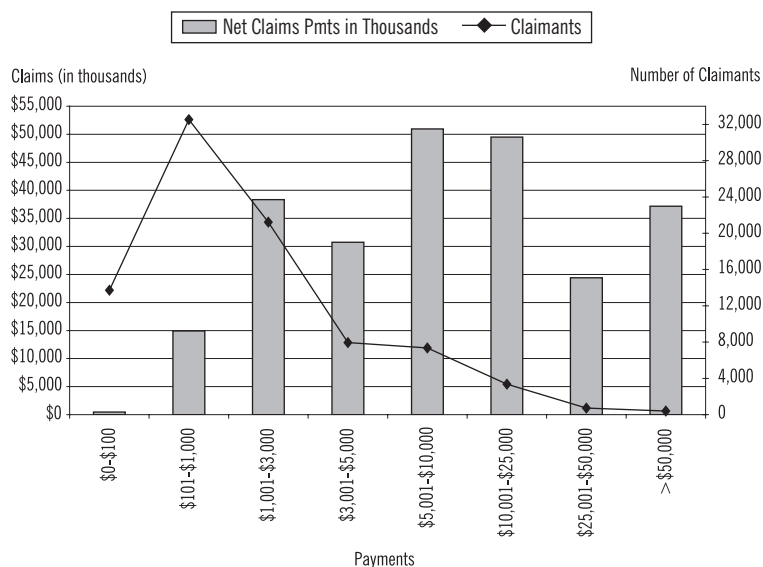
Includes all plan payments and patient payments for deductibles and copayments. (incurred data)

For 2003, payments for outpatient services increased to 80 percent of the total — up from 60 percent if 1993. Outpatient payments grew at a rate of 24.2 percent per year between 1993 and 2003. Inpatient grew at 3.1 percent per year during the same period.



## Paid Claims Distribution by Individual

About 5 percent of the plan members received benefits in excess of \$10,000 and accounted for about 45 percent of the benefit payments. The average benefit for this group was \$24,791.



## Local Education Plan Participants

Alamo City Schools	Franklin Special School District	Lexington City Schools	Robertson County Schools
Alcoa City Schools	Gibson County Schools	Lincoln County Schools	Rogersville City Schools
Anderson County Schools	Giles County Schools	Little TN Valley Education Co-op	Scott County Schools
Athens City Schools	Grainger County Schools	Loudon County Schools	Sequatchie County Schools
Bedford County Schools	Greene County Schools	Macon County Schools	Sevier County Schools
Bells City Schools	Greeneville City Schools	Manchester City Schools	Smith County Schools
Benton County Schools	Grundy County Schools	Marion County Schools	South Carroll County Special District
Bledsoe County Schools	Hamblen County Schools	Marshall County Schools	Stewart County Schools
Bradford Special School District	Hancock County Schools	Maury County Schools	Sullivan County Board of Education
Bradley County Schools	Hardeman County Schools	McKenzie Special School District	Sumner County Board of Education
Bristol City Schools	Hardin County Schools	McMinn County Schools	Sweetwater City Schools
Campbell County Schools	Harriman City Schools	McNairy County School System	Tennessee Education Association
Cannon County Schools	Hawkins County Schools	Meigs County Schools	Tipton County Schools
Carroll County Schools	Haywood County Schools	Milan Special School District	Trenton Special School District
Carter County Schools	Henderson County Schools	Monroe County Schools	Tri-County Vocational Schools
Cheatham County Schools	Henry County Board of Education	Moore County Schools	Trousdale County Schools
Chester County Schools	Hickman County Schools	Morgan County Schools	Tullahoma City Schools
Clay County Schools	Hollow Rock – Bruceton Special School District	Murfreesboro City Schools	Unicoi County Schools
Cleveland City Schools	Houston County Schools	Newport City Schools	Union City Schools
Clinton City Schools	Humboldt City Schools	Oak Ridge City Schools	Union County Schools
Cocke County Schools	Humphreys County Schools	Obion County Schools	Van Buren County Schools
Coffee County Schools	Huntingdon Special Schools	Oneida Special School District	Warren County Schools
Crockett County Schools	Jackson County Schools	Overton County Schools	Washington County Schools
Cumberland County Schools	Jefferson County Schools	Paris Special School District	Wayne County Schools
Dayton City Schools	Kingsport City Schools	Perry County Schools	Weakley County Schools
Decatur County Schools	Knox County Schools	Pickett County Schools	West Carroll Special School District
Dekalb County Schools	Lake County Schools	Polk County Schools	White County Schools
Dyer County Schools	Lauderdale County Schools	Putnam County Schools	
Dyersburg City Schools	Lawrence County Schools	Rhea County Schools	
Elizabethton City Schools	Lebanon – Tenth District Schools	Richard City Special School District	
Etowah City Schools	Lenoir City Schools	Roane County Schools	
Fayette County Schools	Lewis County Schools		
Fayetteville City Schools			
Fentress County Schools			
Franklin County Schools			

## Local Government Plan

In 1989, the Tennessee General Assembly authorized creation of an insurance plan for local government agency and quasi-governmental agency employees. At 2003 year end, 365 counties, cities and quasi-governmental agencies were participating in the Local Government Plan.

Plan enrollment was 16,415 at year end, a decrease from 21,663 in December 2002. The decrease in enrollment is attributable to 50 agencies terminating participation in the plan during the year. Of the total enrollment, 6,318 participated in the PPO, while 4,685 were covered by HMOs. Enrollment in POSs totaled 5,412.

Dental insurance became available as an option to participants in the Local Government Plan in January 1993. Participation in the dental coverage at year end was 2,114.

Life insurance and long-term care coverage are not available options to members in the self-insured Local Government Plan.

In 2003, there was a 7.9 percent increase in the total gross payments per capita for PPO members. The increase was only partially attributable to increasing outpatient costs which were pushed by increases in utilization and price. The increase in cost of hospitalization to \$2,676 per day impacted inpatient benefit payments.

Total gross per capita payments by the POS option increased by 8.4 percent, primarily due to increases in outpatient expenses. The rise in outpatient expenses was attributable to both increasing utilization and the cost of each outpatient service. Total gross per capita payments by the HMO option increased by 15.4 percent compared to the same measure in 2002.

Pharmacy costs continue to impact the growth of benefit payments under the Local Government Plan. For the PPO option, cost for prescription drugs increased from \$795.63 in 2002 to \$935.78 in 2003, representing an increase of 17.6 percent over one year. As a result of the increase in pharmacy, benefit modification were made to plan options effective for the 2004 plan year.

### Health Contracts

#### Preferred Provider Organization (PPO)

BlueCross BlueShield	6,318	
Percent of Total		38.5%

#### Health Maintenance Organization (HMO)

Aetna Nashville	659	
Percent of Total		4.0%
Aetna Memphis	811	
Percent of Total		4.9%
John Deere Health Knoxville	2,229	
Percent of Total		13.6%
John Deere Health Chattanooga	758	
Percent of Total		4.6%
John Deere Health Tri-Cities	228	
Percent of Total		1.4%

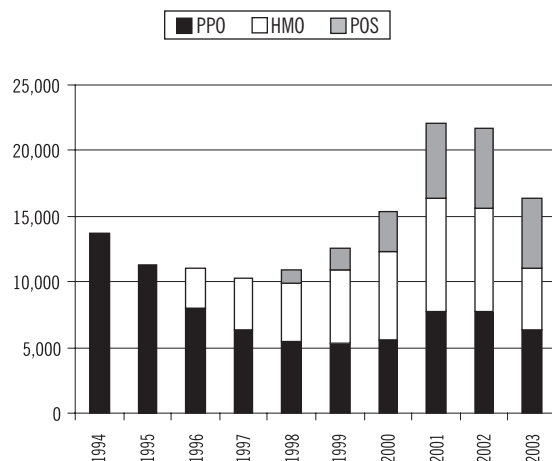
#### Point of Service (POS)

West — BlueCross BlueShield	1,437	
Percent of Total		8.8%
Middle — BlueCross BlueShield	2,206	
Percent of Total		13.4%
East — John Deere Health	1,769	
Percent of Total		10.8%

### Optional Insurance Contracts

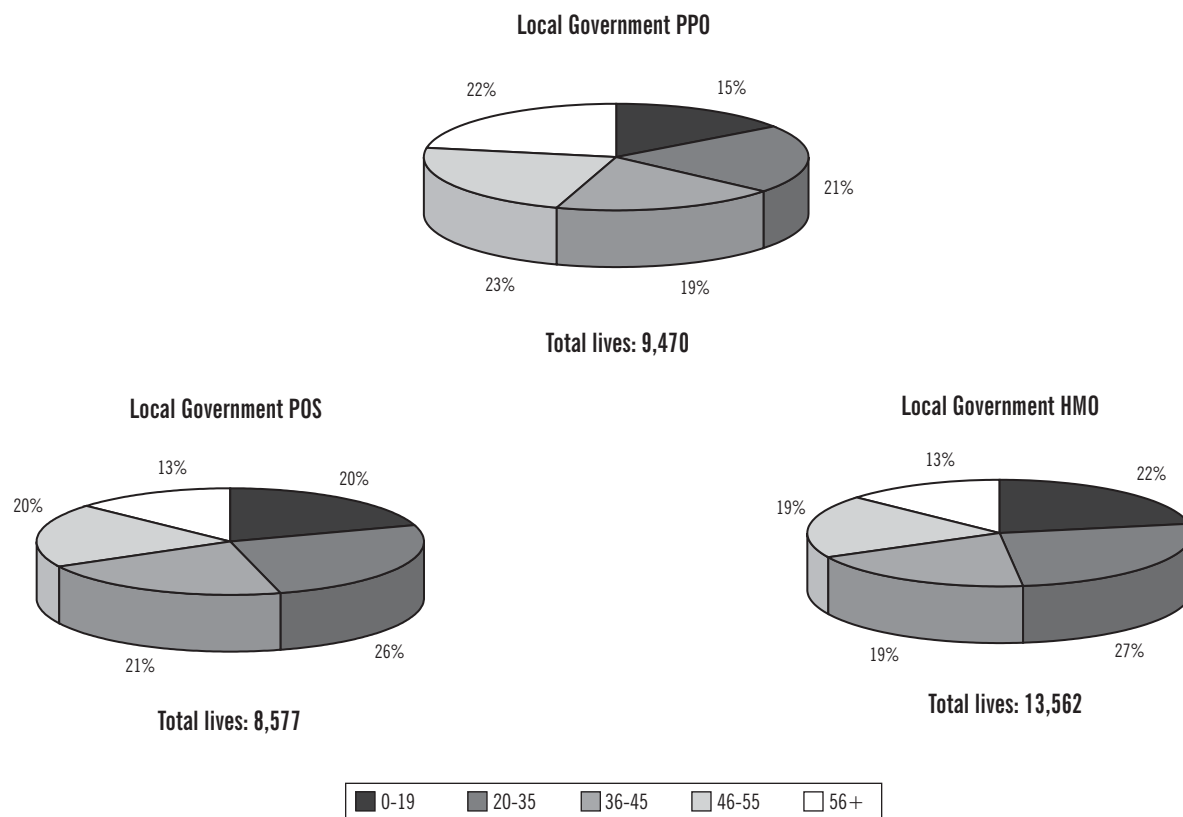
	DEC. 31, 2003	DEC. 31, 2002
<b>Dental Insurance</b>		
Prepaid Plan	1,269	1,478
Preferred Provider Plan	845	896
Total Dental Insurance	2,114	2,374

### Total Contracts by Healthcare Option





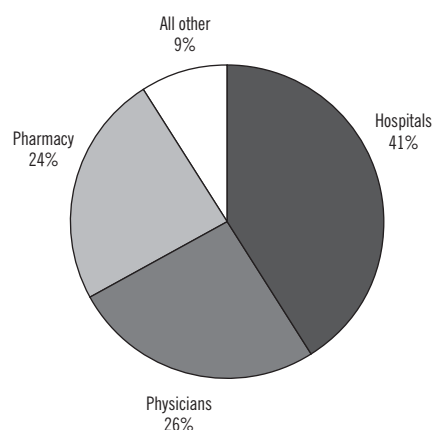
## Health Enrollment Demographics



## Benefits Distribution by Provider Type (Paid Claims)

Local Government Plan PPO, POS and HMO Total Disbursements: \$90,215,048 (amount reflects all health vendors submitting data to Medstat in 2003)

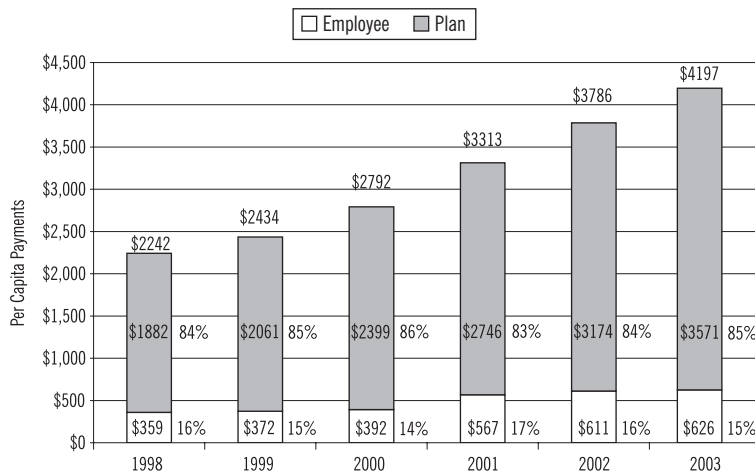
Total self-insured paid claims for 2003 decreased from \$104,192,850 in 2002. This decrease is largely attributable to the decrease in the number of covered lives in the Local Government Plan. As with the other plans, the proportionate amount paid to each provider type remained similar. As a percent of the total, payments to hospitals and pharmacies were basically flat when compared to 2002, while there was a decrease in payments to physicians.



## PPO Per Capita Payments

Employee portion represents deductibles and coinsurance/copays.

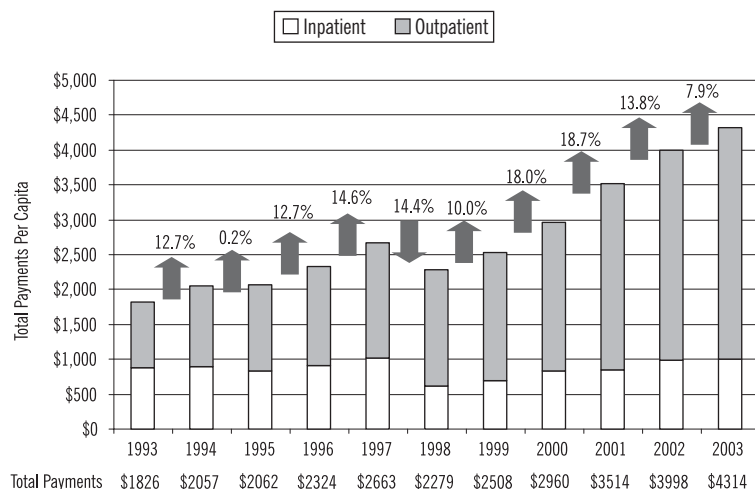
Percentages indicate portion of medical expenses paid by employee or plan.



## PPO Total Payments Per Capita

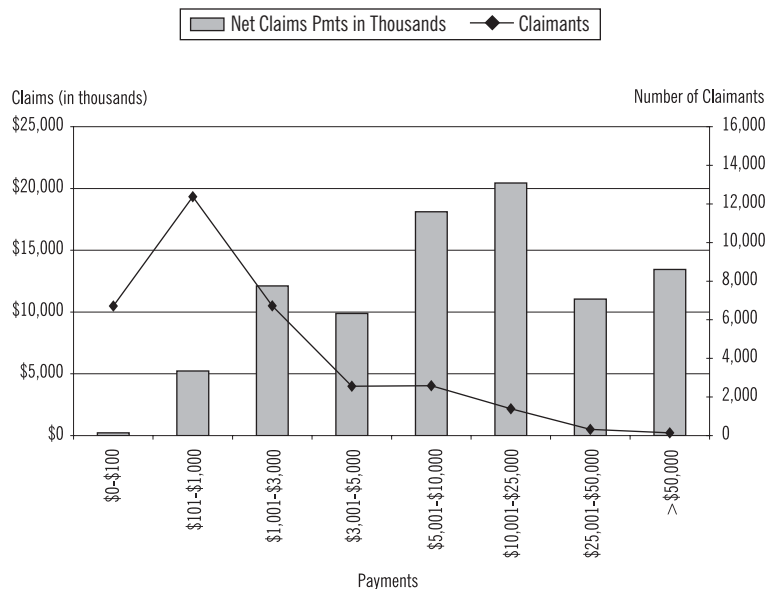
Includes all plan payments and patient payments for deductibles and copayments. (incurred data)

For 2003, payments for outpatient services increased to 77 percent of the total — up from 52 percent in 1993. Outpatient payments grew at a rate of 24.9 percent per year. Inpatient grew 1.4 percent per year during the same period.



## Paid Claims Distribution by Individual

About 5 percent of the plan members received benefits in excess of \$10,000 and accounted for about 50 percent of benefit payments. The average benefit for this group was \$24,161.



## Local Government Plan Participants

Access Services of Middle TN	Centerville, Town of	East TN Development District	Henderson, City of
Adult Community Training	Chattanooga Boys Choir	East TN Foundation	Henderson County
Aging Services of the Upper Cumberland	Chattanooga Endeavors, Inc.	Eastside Utility District	Henderson County Highway
Aid Distressed Families – Anderson County	Cheatham County 911	Elkton, City of	Henry County Highway
Alamo, City of	Cheatham County General	Engstrom Services, Inc.	Hickman County
Alcohol and Drug Council of Middle TN	Cheatham County Highway	Erin, City of	Highland Rim Economic Corporation
Alpha-Talbot Utility District	Chester County	Estill Springs, Town of	Hixson Utility District
Anderson County CAC	Child Advocacy Center	Etheridge, City of	Homeplace, Inc.
Appalachian Education Community Corp.	Children's Advocacy Center	Fairview, City of	Homesafe of Sumner, Wilson and Robertson County
Arc of Hamilton County	Children's Advocacy Center 9th Judicial District, Inc.	Fayette County	Hope of East TN
Arc of Washington County	Children's Home Chambliss Shelter	Fayette County Public Works	Humboldt Housing Authority
Atoka, Town of	Claiborne County Highway	First TN Development District	Humboldt, City of
Atwood, Town of	Clarksville Housing Authority	First Utility District of Tipton County	Humphreys County
Battered Women, Inc.	Clarksville/Montgomery County CAA	First Utility of Hawkins County	Huntingdon, Town of
Bedford County	Clearfork Utility District	Forest Hill, City of	Jackson Area Council on Alcohol and Drug Dependence
Belle Meade, City of	Clifton, City of	Four Lake Regional Industrial Development Authority	Jackson Center for Independent Living
Bells, City of	Clinchfield Senior Center	Franklin County	James Developmental Center
Benton County	Cocke County	Franklin County Adult Activity Center	Jason Foundation
Bethany Home	Cocke County 911	Franklin County Highway	Jasper, Town of
Better Decisions	Cocke County Highway	Franklin Consolidated Housing Authority	Jefferson City Housing
Big Creek Utility District	Coffee County	Friendship, City of	Jefferson County
Big Sandy, City of	Collegedale, City of	Gallatin Housing Authority	Jefferson County 911
Bledsoe County	Collinwood, City of	Gallaway, City of	Johnson County
Bloomington Utility	Community Development Center	Gibson County Municipal Water	Jubilee Community Arts
Blount County CAA	Community Mediation Services	Gibson, City of	Kimball, Town of
Blountville Utility	Community Network Services	Giles County	Kings Daughters Day Home
Bon Aqua Lyles Utility	Coopertown, Town of	Giles County 911	Kingsport Housing and Redevelopment Authority
Bondcroft Utility	County Wide Utility District	Gladeville Utility District	Kingston, City of
Bradley County	Crisis Intervention Center	Gleason, City of	Kingston Springs, Town of
Bradley/Cleveland CSA	Crockett County	Good Neighbor Mission and Crisis Center	Knox County CSA
Bradley/Cleveland Services	Crockett County Highway	Goodwill Industries Knoxville, Inc.	Knoxville, City of
Bridge Refugee Services	Cross Plains, City of	Gordonsville, Town of	Knoxville-Knox County CAC
Bridges of Williamson County	Cumberland Community Options, Inc.	Greenbrier, City of	Lafayette, City of
Bruceton, Town of	Cumberland County	Grundy County	Lakeland, City of
Burns, City of	Cumberland Heights	Grundy County Highway	Lakesite, City of
Camden, City of	Cumberland Utility District	Grundy Emergency Medical Services	Lauderdale County
Campbell County 911	Cunningham Utility District	Hamilton County 911	Lawrence County
Care of Savannah, Inc.	Dandridge, Town of	Hamilton County CSA	Lawrence County 911
Carey Counseling Center	Dayton, City of	Hardin County Government	Lawrence County Chamber of Commerce
Carroll County 911	Decatur County	Hardin County Skills, Inc.	Lawrence County Housing Authority
Carthage, Town of	Decaturville, Town of	Harriman, City of	Lexington, City of
Caryville – Jacksboro Utility	Decherd, City of	Hartsville/Trousdale County	Lexington Electric System
Caryville, Town of	Dekalb County	Hawkins County	Linden, City of
CASA – Juvenile Services	DeWhite Utility	Haywood County	Lobelville, City of
CASA of the TN Heartland	Dover, Town of	Haywood County Highway	Loretto, City of
CASA, Inc.	Dresden, City of		Lynnville, City of
Catoosa Utility District	Dyersburg Electric System		
CEASE, Inc.	East Ridge, City of		
Celina, City of	East TN CSA		
Center for Independent Living of Middle TN			

## Local Government Plan Participants

Madison Suburban Utility	Northeast Henry County Utility	Senior Citizens, Inc.	TN County Services Association
Manchester Housing Authority	Northwest CHA	Sequatchie County	TN Historical Society
Marion County	Northwest Dyersburg Utility	Sequatchie Valley Planning	TN Mental Health Consumers Association
Marion County Highway	Northwest TN Economic Development Council	Serenity Recovery Center	TN School Board Association
Marion County 911	Northwest TN Head Start	Sertoma Center	TN Secondary School Athletic Association
Martin, City of	Oak Ridge, City of	Sevierville Water Department	TN State Employees Association
Mason, Town of	Oak Ridge Housing Authority	Sexual Assault Crisis CNT	TN State Museum Foundation
McKenzie, City of	Old Hickory Utility	Sharon, City of	TN State Veterans Home – Humboldt
McMinn County	Old Knoxville Highway Water District	Shelby County 911	TN Veterans Home
McMinnville, City of	Orange Grove Center	Shelby Residential and Vocational Services, Inc.	Tipton County
McNairy County	Orlinda, City of	Shelter, Inc.	Tipton County 911 District
Development Services	Overton County	Smith County	Tiptonville, Town of
Memphis and Shelby County CSA	Parsons, City of	Smith County Highway	Troy, Town of
Memphis Center for Independent Living	Partners in Placement	Smithville, City of	Tullahoma Housing Authority
Mental Health Association of Middle TN	Pathfinders, Inc.	Smithville Electric System	Tullahoma Utilities
Mid-Cumberland CAA	Pegram, Town of	Soddy-Daisy Falling Water Utility	Twenty-first Drug Task Force
Mid-Cumberland CHA	Perry County Highway	South Carthage, Town of	Ujima House
Mid-Cumberland HRA	Perry County Officials	South Central CSA	Unicoi, Town of
Mid-East CAA	Petersburg, Town of	South Central TN Development District	Union City Electric System
Midtown Mental Health Center	Pleasant View, Town of	South Central TN Workforce Board	United Cerebral Palsy Center
Milan, City of	Portland, City of	South Pittsburg, City of	Upper Cumberland CHA
Milan Public Utilities	Powells Crossroad, Town of	Southeast Mental Health Center	Upper Cumberland Development District
Ministerial Association	Puryear, City of	Southeast Regional CHA	Upper East TN Human Resource Agency
Temporary Shelter	R & D Instructional Services	Southwest CHA	Urban Housing Solutions
Minor Hill, City of	Rape and Sexual Abuse Center	Sparta Electric and Water System	Volunteer Memphis
Minor Hill Water Utility District	Red Bank, City of	Spring City, Town of	Walden, Town of
Monteagle, Town of	Reelfoot Lake Regional Utility and Planning District	Springfield, City of	Warren County
Mosheim, Town of	Rhea County	St. Joseph, City of	Wartburg, City of
Mt. Carmel – Hawkins SCC	Rhea Medical Center	Statewide Independent Living Council of TN	Wartrace, Town of
Mt. Pleasant Power System	Riceville Utility District	Stewart County	Waynesboro, City of
Murfreesboro Electric Department	Ridgetop, City of	Stewart County Highway	Weakley County
NAMI TN – Knoxville	Ripley, City of	Sullivan County 911	Weakley County 911
Nashville Cares	Ripley Gas/Water	Sweetwater, City of	Weakley County Municipal Electric System
Nashville Cares – Special Funding	Roane Central Utility	Team Evaluation Center	Webb Creek Utility
Nashville Thermal Transfer Corporation	Roane County	Temporary Residence for Adolescents and Crisis	West Overton Utility
National Association of Social Workers	Roane County 911	TN Alcohol and Drug Association	West TN Legal Services, Inc.
National Healthcare for the Homeless Council	Robertson County	TN Arts Center of Cannon County	West TN Special Technical Access Resource
New Directions	Rochelle Center	TN Association of County Executives	White Bluff, City of
New Horizons Corporation	Rose Center Council for the Arts	TN Business Enterprises	Whitehaven Southwest Mental Health Center
New Johnsonville, City of	Rossville, Town of	TN Center for Nursing, Inc.	Whitwell, City of
New Market Utility District	Rutherford County Adult Action Center	TN County Commissioners Association	Winchester, City of
North Utility of Decatur/Benton County	Safe Space	TN County Highway Officials	Woodbury Housing Authority
Northeast Community Services Agency	Savannah, City of		Workforce Solutions
	Scott County		
	Scotts Hill, Town of		
	Second South Cheatham Utility District		
	Selmer, Town of		

## Employee Assistance Program

The EAP provides counseling and referral services for personal and workplace problems. Eligible employees and their dependents may receive up to six counseling sessions per problem episode at no direct cost. If more intensive treatment is needed, individuals may receive care through their insurance plan's mental health or substance abuse coverage. Training programs include employee orientations and supervisory training classes on the EAP services. Personal and professional growth seminars are held in nine locations across the state quarterly and upon request by agencies, departments and schools.

The program is available to all state and higher education employees/dependents who are eligible to participate in the State Group Insurance Program and all local education and local government employees who participate in a state-sponsored health plan.

United Behavioral Health reported 10,970 members accessing EAP services for the year, a slight increase from 10,503 in 2002. Of those, 96 percent were new cases. The overall EAP activity totaled 7.5 percent.

Participation in consultation and training services continues to be in high demand. Agencies, departments and schools contacted the EAP to provide assistance to staff units. A total of 724 hours were spent in training activities reaching around 9,000 employees. Critical stress debriefings have become a mainstay of the program with managers requesting the EAP to come onsite to address problems facing their work group. A total of 22 sessions were held involving 210 employees.

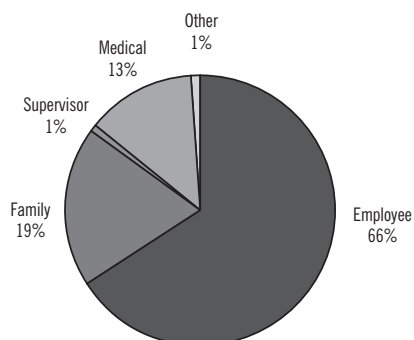
### Employee Utilization

Counseling Services Utilization	5.2%
Training Utilization	6.0%

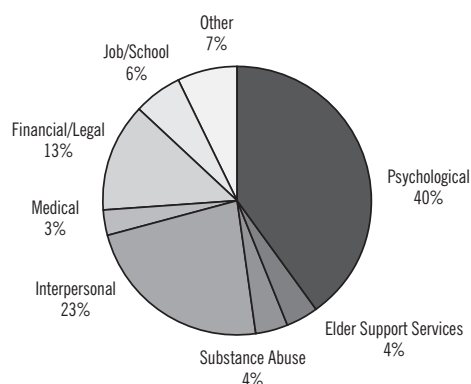
### EAP Referral Utilization by Plan

State Plan	71%
Local Education Plan	20%
Local Government Plan	9%

### Source of New Cases

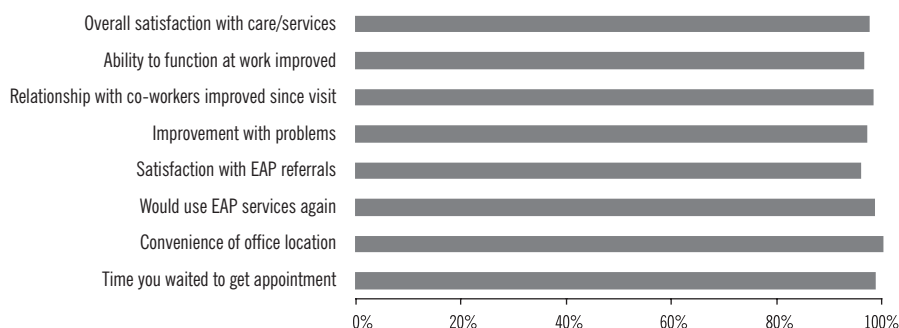


### Problem Types of New Cases



### EAP Client Office Session Questionnaire Responses

Total: 190



## Mental Health and Substance Abuse

The management of mental health and substance abuse benefits through United Behavioral Health for the Integrated Employee Assistance and Behavioral Health program has continued to result in patients receiving care in more clinically appropriate and less costly settings.

As noted in the data, inpatient utilization, as reflected in admissions and days of care per 1,000 plan members decreased

from 2002 to 2003. Partial hospital rates and intensive outpatient rates increased slightly. However, through a combination of improved benefit design and improved clinical management, quality and access to appropriate levels of care continues to improve as well as maintaining appropriate cost.

### Outpatient Utilization — PPO and POS Combined Plans

	PATIENTS REVIEWED		SESSIONS PER 1,000*	
	2003	2002	2003	2002
Outpatient	10,929	9,005	252.9	196.9
Intensive Outpatient/ Partial Hospitalization	299	403	16.5	10.5
*per 1,000 covered individuals				

### Inpatient Utilization — PPO and POS Combined Plans

	2003	2002
Number of Cases Reviewed	451	501
Admissions per 1000*	2.2	2.6
Days per 1,000*	12.6	16.5
*per 1,000 covered individuals		

### Total Utilization and Cost Summary — PPO and POS Combined Plans

		AMOUNT PAID 2003
Outpatient	50,828	\$1,943,042
Intensive Outpatient/ Partial Hospitalization	2,914	526,158
Inpatient Days	2,523	1,145,769
		<u>\$3,614,969</u>

## Medicare Supplement Program

Since January 1989, the state has maintained a benefits program for Medicare-eligible, retired teachers and state employees. The program involves two elements: the sponsorship of Medicare supplement coverage and the provision of financial support for participating retirees.

Under the present structure, the Medicare Supplement Program offers three benefit options. Plans One and Two were changed at the beginning of 1998 to comply with standard plan requirements established by the National Association of Insurance Commissions (NAIC). Plan One matches the NAIC level D benefits. Plan Two offers level H benefits. Based upon action taken by the State Insurance Committee in September 2000, qualified retirees were offered the opportunity to select a third option. Plan Three provides benefits that supplement Medicare with the major portion of benefits being paid for prescription drugs. If Medicare benefits exceed Plan Three maximum payments, no benefits will be provided by Plan Three.

At year-end 2003, enrollment in Plan One was 5,079. Plan Two enrollment was 14,676. Enrollment in Plan Three was 2,969. Total enrollment increased about 6 percent compared to 2002.

The contract with BlueCross BlueShield for this coverage has contained a requirement that excess premiums be refunded to the state program on behalf of participating retirees. Half the excess premiums are returned at the end of the year; the balance at the end of the contract. Through the end of 2003, over \$27.5 million had been returned to the state under this contract requirement that was added at the beginning of 1992. These funds have resulted in reduced premiums

for participating retirees through direct payment of part of the monthly retiree contribution. Beginning in 2001, the program changed to a self-insured plan with payment of an administrative fee to BlueCross to pay for claims processing and customer service. Funds previously returned to the state or resulting from the 2001 year operation have been obligated to establish reserves for incurred but unreported claims and for claims expense fluctuations. By making these changes, administrative expenses were lowered, premium taxes were avoided and premium levels were more closely matched to anticipated benefit payments.

For 2003, Plan One premium was reduced by 13 percent and Plan Two contributions increased by \$1 a month (0.6 percent). Plan Three premium, due to a substantial portion of benefits provided for rapidly rising pharmacy expenses, increased by nearly 29 percent.

The state's financial support is based on a retiree's length of service. Retired teachers and state employees receive \$40 a month toward their premium if they have 30 or more years of service. For 20 to 29 years of service, they receive \$30 a month; for 15 to 19 years of service, they receive \$20 per month. The current support levels were set in July 1998.

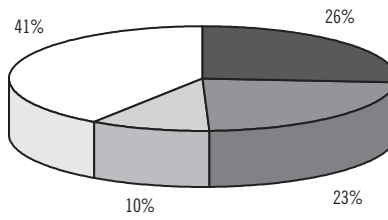
This support is provided to Medicare Supplement Program participants and to retired teachers in school districts which sponsor employee medical plans and permit Medicare eligible retirees to continue coverage during retirement.

For 2003, financial support was provided to about 17,400 retirees each month, with an estimated annual cost of \$7.2 million.



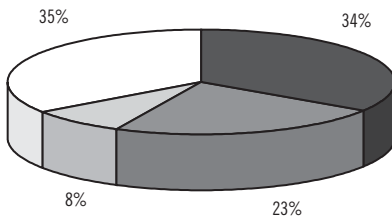
## Retiree Medicare Supplement Enrollment

Plan One



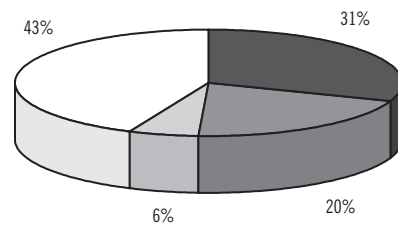
Total Members: 5,079

Plan Two



Total Members: 14,676

Plan Three



Total Members: 2,969



Years of Service

## Financial Statements

The following unaudited financial statements presented on pages 29-40 for the State Plan, Local Education Plan, Local Government Plan and Medicare Supplement Program disclose the financial position and the results of operations for the year ended June 30, 2003. The Department of Finance and Administration, Division of Insurance Administration prepared these statements which summarize transactions for all cover-

ages available through each plan. The complete financial statements, accompanying notes and supplemental schedules are included in the Comprehensive Annual Financial Report (CAFR) for the State of Tennessee. The CAFR was prepared by the Department of Finance and Administration, Division of Accounts and was audited by the Comptroller of the Treasury, Division of State Audit.

### State Plan — Comparative Statement of Net Assets

	30-JUN-03	30-JUN-02
<b>Assets</b>		
Cash	\$ 78,282,499	\$ 47,562,746
Insurance accounts receivable	3,071	17,732
Accounts receivable	3,058,309	2,008,247
<b>Total assets</b>	<b>\$ 81,343,879</b>	<b>\$ 49,588,725</b>
<b>Liabilities</b>		
Accrued liabilities	\$ 42,807,763	\$ 45,536,866
Accounts payable	748,303	687,691
Deferred revenue	28,389,672	22,522,809
<b>Total liabilities</b>	<b>\$ 71,945,738</b>	<b>\$ 68,747,366</b>
<b>Net assets</b>		
Unrestricted (deficit)	\$ 9,398,141	\$ (19,158,641)
<b>Total net assets</b>	<b>\$ 9,398,141</b>	<b>\$ (19,158,641)</b>

## State Plan — Comparative Statement of Revenues, Expenses and Changes in Net Assets

	30-JUN-03	30-JUN-02
<b>Operating revenues</b>		
Premiums	\$ 481,389,202	\$ 379,904,346
Other	171	21,708
<b>Total operating revenues</b>	<b>\$ 481,389,373</b>	<b>\$ 379,926,054</b>
<b>Operating expenses</b>		
Benefits/claims	\$ 416,419,720	\$ 373,217,745
Less: insurance recoveries	(10,424,348)	(8,157,250)
Administrative services	2,948,847	3,054,931
Contract services	36,590,374	33,978,770
Insurance premiums	8,474,616	6,290,066
<b>Total operating expenses</b>	<b>\$ 454,009,209</b>	<b>\$ 408,384,262</b>
Operating income (loss)	\$ 27,380,164	\$ (28,458,208)
<b>Non-operating revenues</b>		
Interest income	\$ 745,818	\$ 1,391,942
<b>Total non-operating revenues</b>	<b>\$ 745,818</b>	<b>\$ 1,391,942</b>
Income (loss) before transfers	\$ 28,125,982	\$ (27,066,266)
Transfers from general fund	430,800	450,000
Change in net assets	\$ 28,556,782	\$ (26,616,266)
Net assets, July 1	(19,158,641)	7,457,625
<b>Net assets, June 30</b>	<b>\$ 9,398,141</b>	<b>\$ (19,158,641)</b>

## State Plan — Comparative Statement of Cash Flows

	30-JUN-03	30-JUN-02
<b>Cash flows from operating activities</b>		
Receipts from interfund services provided	\$ 306,355,846	\$ 242,998,112
Receipts from customers and users	193,377,795	153,245,323
Payments to suppliers	(467,241,659)	(415,799,648)
Payments for interfund services used	(2,948,847)	(3,054,932)
<b>Net cash from (used for) operating activities</b>	<b>\$ 29,543,135</b>	<b>\$ (22,611,145)</b>
<b>Cash flows from noncapital financing activities</b>		
Transfers in	\$ 430,800	\$ 450,000
<b>Net cash from noncapital financing activities</b>	<b>\$ 430,800</b>	<b>\$ 450,000</b>
<b>Cash flows from investing activities</b>		
Interest received	\$ 745,818	\$ 1,391,942
<b>Net cash from investing activities</b>	<b>\$ 745,818</b>	<b>\$ 1,391,942</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 30,719,753</b>	<b>\$ (20,769,203)</b>
Cash and cash equivalents, July 1	47,562,746	68,331,949
<b>Cash and cash equivalents, June 30</b>	<b>\$ 78,282,499</b>	<b>\$ 47,562,746</b>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>		
Operating income (loss)	\$ 27,380,164	\$ (28,458,208)
<b>Adjustments to reconcile operating income (loss) to net cash from operating activities</b>		
(Increase) decrease in accounts receivable	\$ (1,035,401)	\$ (1,820,267)
Increase (decrease) in accounts payable	(2,668,491)	2,869,067
Increase (decrease) in deferred revenue	5,866,863	4,798,263
Total adjustments	\$ 2,162,971	\$ 5,847,063
<b>Net cash from (used for) operating activities</b>	<b>\$ 29,543,135</b>	<b>\$ (22,611,145)</b>

## Local Education Plan — Comparative Statement of Net Assets

	30-JUN-03	30-JUN-02
<b>Assets</b>		
Cash	\$ 30,149,985	\$ 12,267,964
Accounts receivable	1,963,806	247,157
<b>Total assets</b>	<b>\$ 32,113,791</b>	<b>\$ 12,515,121</b>
<b>Liabilities</b>		
Accrued liabilities	\$ 22,822,761	\$ 23,942,514
Accounts payable	—	50
Deferred revenue	990,694	622,194
<b>Total liabilities</b>	<b>\$ 23,813,455</b>	<b>\$ 24,564,758</b>
<b>Net assets</b>		
Unrestricted (deficit)	\$ 8,300,336	\$ (12,049,637)
<b>Total net assets</b>	<b>\$ 8,330,336</b>	<b>\$ (12,049,637)</b>

## Local Education Plan — Comparative Statement of Revenues, Expenses and Changes in Net Assets

	30-JUN-03	30-JUN-02
<b>Operating revenues</b>		
Premiums	\$ 249,837,768	\$ 203,362,432
Other	—	5,954
Insurance forfeitures	—	2,045
<b>Total operating revenues</b>	<b>\$ 249,837,768</b>	<b>\$ 203,370,431</b>
<b>Operating expenses</b>		
Benefits/claims	\$ 221,572,840	\$ 194,881,991
Less: insurance recoveries	(6,254,070)	(3,922,450)
Administrative services	1,319,950	1,447,913
Contract services	19,951,179	17,931,850
<b>Total operating expenses</b>	<b>\$ 236,589,899</b>	<b>\$ 210,339,304</b>
Operating income (loss)	\$ 13,247,869	\$ (6,968,873)
<b>Non-operating revenues</b>		
Interest income	\$ 252,507	\$ 306,769
<b>Total non-operating revenues</b>	<b>\$ 252,507</b>	<b>\$ 306,769</b>
Income (loss) before transfers	\$ 13,500,376	\$ (6,662,104)
Transfers from general fund	6,849,597	4,639,072
Change in net assets	\$ 20,349,973	\$ (2,023,032)
Net assets, July 1	(12,049,637)	(10,026,605)
<b>Net assets, June 30</b>	<b>\$ 8,300,336</b>	<b>\$ (12,049,637)</b>

## Local Education Plan — Comparative Statement of Cash Flows

	30-JUN-03	30-JUN-02
<b>Cash flows from operating activities</b>		
Receipts from customers and users	\$ 249,698,968	\$ 204,394,652
Payments to suppliers	(237,599,101)	(210,413,871)
Payments for interfund services used	(1,319,950)	(1,447,913)
<b>Net cash from (used for) operating activities</b>	<b>\$ 10,779,917</b>	<b>\$ (7,467,132)</b>
<b>Cash flows from noncapital financing activities</b>		
Transfers in	\$ 6,849,597	\$ 4,639,072
<b>Net cash from noncapital financing activities</b>	<b>\$ 6,849,597</b>	<b>\$ 4,639,072</b>
<b>Cash flows from investing activities</b>		
Interest received	\$ 252,507	\$ 306,769
<b>Net cash from investing activities</b>	<b>\$ 252,507</b>	<b>\$ 306,769</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 17,882,021</b>	<b>\$ (2,521,291)</b>
Cash and cash equivalents, July 1	12,267,964	14,789,255
<b>Cash and cash equivalents, June 30</b>	<b>\$ 30,149,985</b>	<b>\$ 12,267,964</b>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>		
Operating income (loss)	\$ 13,247,869	\$ (6,968,873)
<b>Adjustments to reconcile operating income (loss) to net cash from operating activities</b>		
(Increase) decrease in accounts receivable	\$ (1,716,649)	\$ (147,859)
Increase (decrease) in accounts payable	(1,119,803)	(491,693)
Increase (decrease) in deferred revenue	368,500	141,293
Total adjustments	\$ (2,467,952)	\$ (498,259)
<b>Net cash from (used for) operating activities</b>	<b>\$ 10,779,917</b>	<b>\$ (7,467,132)</b>

## Local Education Plan — Required Supplementary Information

The table below illustrates how the Local Education Group Insurance Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Local Education Group Insurance Fund for each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims. (3) This line shows the fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year); some of these amounts are unavailable. (4) This section shows the cumulative amounts paid as of the end of successive years for each policy year; some of these amounts

are unavailable. (5) This section shows how each policy year's incurred claims increased or decreased as of the end of successive years; some of these amounts are unavailable. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive fiscal and policy years.

### Ten-Year Claims Development Information (expressed in thousands)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
(1) Required contribution and investment revenue earned (fiscal year)	75,715	79,410	83,340	95,185	109,968	123,419	126,918	166,476	203,669	250,090
(2) Unallocated expenses (fiscal year)	2,224	1,794	3,722	3,768	5,193	6,685	13,261	15,961	19,380	21,271
(3) Estimated incurred claims and expenses, end of policy year	*	*	*	*	*	*	141,005	185,219	210,650	*
(4) Paid (cumulative) as of:										
End of policy year	*	*	*	*	*	*	124,084	162,993	189,585	*
One year later	*	*	*	*	*	*	139,458	182,699	*	
Two years later	*	*	*	*	*	*	139,349	*		
Three years later	*	*	*	*	*	*	*			
Four years later	*	*	*	*	*	*	*			
Five years later	*	*	*	*	*	*				
Six years later	*	*	*	*	*					
Seven years later	*	*	*							
Eight years later	*	*								
Nine years later	*									
(5) Reestimated incurred claims and expenses:										
End of policy year	*	*	*	*	*	*	141,005	185,219	210,650	*
One year later	*	*	*	*	*	*	139,401	182,581	*	
Two years later	*	*	*	*	*	*	139,357	*		
Three years later	*	*	*	*	*	*	*			
Four years later	*	*	*	*	*	*	*			
Five years later	*	*	*	*	*	*				
Six years later	*	*	*	*	*					
Seven years later	*	*	*							
Eight years later	*	*								
Nine years later	*									
(6) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	*	*	*	*	*	*	(1,648)	(2,638)	0	*

\* Data Not Available



## Local Government Plan — Comparative Statement of Net Assets

	30-JUN-03	30-JUN-02
<b>Assets</b>		
Cash	\$ —	\$ 910,846
ACH debit receivable	—	22,069
Insurance accounts receivable	1,031	2,328
Accounts receivable	676,345	292,759
<b>Total assets</b>	<b>\$ 677,376</b>	<b>\$ 1,228,002</b>
<b>Liabilities</b>		
Accrued liabilities	\$ 11,027,297	\$ 11,806,707
Accounts payable	2,537,005	966
Deferred revenue	123,587	94,821
<b>Total liabilities</b>	<b>\$ 13,687,889</b>	<b>\$ 11,902,494</b>
<b>Net assets</b>		
Unrestricted (deficit)	\$ (13,010,513)	\$ (10,674,492)
<b>Total net assets</b>	<b>\$ (13,010,513)</b>	<b>\$ (10,674,492)</b>

## Local Government Plan — Comparative Statement of Revenues, Expenses and Changes in Net Assets

	30-JUN-03	30-JUN-02
<b>Operating revenues</b>		
Premiums	\$ 101,205,959	\$ 91,103,849
Other	32	2,484
Insurance forfeitures	5,906	—
<b>Total operating revenues</b>	<b>\$ 101,211,897</b>	<b>\$ 91,106,333</b>
<b>Operating expenses</b>		
Benefits/claims	\$ 97,196,716	\$ 96,423,835
Less: insurance recoveries	(2,211,309)	(1,427,311)
Administrative services	577,934	666,417
Contract services	7,997,801	8,729,895
<b>Total operating expenses</b>	<b>\$ 103,561,142</b>	<b>\$ 104,392,836</b>
Operating income (loss)	\$ (2,349,245)	\$ (13,286,503)
<b>Non-operating revenues</b>		
Interest income	\$ 13,224	\$ 193,241
<b>Total non-operating revenues</b>	<b>\$ 13,224</b>	<b>\$ 193,241</b>
Change in net assets	\$ (2,336,021)	\$ (13,093,262)
Net assets, July 1	(10,674,492)	2,418,770
<b>Net assets, June 30</b>	<b>\$ (13,010,513)</b>	<b>\$ (10,674,492)</b>

## Local Government Plan — Comparative Statement of Cash Flows

	30-JUN-03	30-JUN-02
<b>Cash flows from operating activities</b>		
Receipts from customers and users	\$ 101,363,739	\$ 91,364,521
Payments to suppliers	(104,245,033)	(101,645,572)
Payments for interfund services used	(577,934)	(666,417)
<b>Net cash from (used for) operating activities</b>	<b>\$ (3,459,228)</b>	<b>\$ (10,947,468)</b>
<b>Cash flows from noncapital financing activities</b>		
Negative cash balance implicitly financed	\$ 2,535,158	\$ —
<b>Net cash from noncapital financing activities</b>	<b>\$ 2,535,158</b>	<b>\$ —</b>
<b>Cash flows from investing activities</b>		
Interest received	\$ 13,224	\$ 193,241
<b>Net cash from investing activities</b>	<b>\$ 13,224</b>	<b>\$ 193,241</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ (910,846)</b>	<b>\$ (10,754,227)</b>
Cash and cash equivalents, July 1	910,846	11,665,073
<b>Cash and cash equivalents, June 30</b>	<b>\$ —</b>	<b>\$ 910,846</b>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>		
Operating income (loss)	\$ (2,349,245)	\$ (13,286,503)
<b>Adjustments to reconcile operating income (loss) to net cash from operating activities</b>		
(Increase) decrease in accounts receivable	\$ (360,220)	\$ (236,603)
Increase (decrease) in accounts payable	(778,529)	2,549,856
Increase (decrease) in deferred revenue	28,766	25,782
Total adjustments	\$ (1,109,983)	\$ 2,339,035
<b>Net cash from (used for) operating activities</b>	<b>\$ (3,459,228)</b>	<b>\$ (10,947,468)</b>

## Local Government Plan — Required Supplementary Information

The table below illustrates how the Local Government Group Insurance Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Local Government Group Insurance Fund for each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims. (3) This line shows the fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year); some of these amounts are unavailable. (4) This section shows the cumulative amounts paid as of the end of successive years for each policy year; some of these amounts

are unavailable. (5) This section shows how each policy year's incurred claims increased or decreased as of the end of successive years; some of these amounts are unavailable. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive fiscal and policy years.

### Ten-Year Claims Development Information (expressed in thousands)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
(1) Required contribution and investment revenue earned (fiscal year)	41,819	40,589	34,857	34,944	33,846	38,187	37,728	58,593	91,297	101,219
(2) Unallocated expenses (fiscal year)	1,267	852	1,425	1,184	1,335	1,732	4,251	6,315	9,396	8,576
(3) Estimated incurred claims and expenses, end of policy year	*	*	*	*	*	*	41,871	84,018	106,617	*
(4) Paid (cumulative) as of:										
End of policy year	*	*	*	*	*	*	36,846	73,936	94,889	*
One year later	*	*	*	*	*	*	41,796	83,286	*	
Two years later	*	*	*	*	*	*	41,778	*		
Three years later	*	*	*	*	*	*	*			
Four years later	*	*	*	*	*	*				
Five years later	*	*	*	*	*					
Six years later	*	*	*	*						
Seven years later	*	*	*							
Eight years later	*	*								
Nine years later	*									
(5) Reestimated incurred claims and expenses:										
End of policy year	*	*	*	*	*	*	41,871	84,018	106,617	*
One year later	*	*	*	*	*	*	41,782	83,241	*	
Two years later	*	*	*	*	*	*	41,778	*		
Three years later	*	*	*	*	*	*	*			
Four years later	*	*	*	*	*	*				
Five years later	*	*	*	*	*					
Six years later	*	*	*	*						
Seven years later	*	*	*							
Eight years later	*	*								
Nine years later	*									
(6) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	*	*	*	*	*	*	(93)	(777)	0	*

\* Data Not Available

## Medicare Supplement Program— Comparative Statement of Net Assets

	30-JUN-03	30-JUN-02
<b>Assets</b>		
Cash	\$ 27,388,537	\$ 25,942,972
Accounts receivable	236,423	—
<b>Total assets</b>	<b>\$ 27,624,960</b>	<b>\$ 25,942,972</b>
<b>Liabilities</b>		
Accrued liabilities	\$ 5,533,043	\$ 4,866,647
Deferred revenue	643,268	416,897
<b>Total liabilities</b>	<b>\$ 6,176,311</b>	<b>\$ 5,283,544</b>
<b>Net assets</b>		
Unrestricted	\$ 21,448,649	\$ 20,659,428
<b>Total net assets</b>	<b>\$ 21,448,649</b>	<b>\$ 20,659,428</b>

## Medicare Supplement Program— Comparative Statement of Revenues, Expenses and Changes in Net Assets

	30-JUN-03	30-JUN-02
<b>Operating revenues</b>		
Premiums	\$ 34,340,139	\$ 43,619,421
Other	89	—
<b>Total operating revenues</b>	<b>\$ 34,340,228</b>	<b>\$ 43,619,421</b>
<b>Operating expenses</b>		
Benefits/claims	\$ 33,957,740	\$ 33,820,700
Administrative services	303,223	5,298
Contract services	5,130,051	4,881,472
<b>Total operating expenses</b>	<b>\$ 39,391,014</b>	<b>\$ 38,707,470</b>
Operating income (loss)	\$ (5,050,786)	\$ 4,911,951
<b>Non-operating revenues</b>		
Interest income	\$ 421,637	\$ 396,199
<b>Total non-operating revenues</b>	<b>\$ 421,637</b>	<b>\$ 396,199</b>
Income before transfers	\$ (4,629,149)	\$ 5,308,150
Transfers from general fund	5,418,370	5,262,600
Change in net assets	\$ 789,221	\$ 10,570,750
Net assets, July 1	20,659,428	10,088,678
<b>Net assets, June 30</b>	<b>\$ 21,448,649</b>	<b>\$ 20,659,428</b>

## Medicare Supplement Program — Comparative Statement of Cash Flows

	30-JUN-03	30-JUN-02
<b>Cash flows from operating activities</b>		
Receipts from customers and users	\$ 34,330,175	\$ 43,799,731
Payments to suppliers	(38,421,394)	(34,862,831)
Payments for interfund services used	(303,223)	(5,298)
<b>Net cash from operating activities</b>	<b>\$ (4,394,442)</b>	<b>\$ 8,931,602</b>
<b>Cash flows from noncapital financing activities</b>		
Transfers in	\$ 5,418,370	\$ 5,262,600
<b>Net cash from noncapital financing activities</b>	<b>\$ 5,418,370</b>	<b>\$ 5,262,600</b>
<b>Cash flows from investing activities</b>		
Interest received	\$ 421,637	\$ 396,199
<b>Net cash from investing activities</b>	<b>\$ 421,637</b>	<b>\$ 396,199</b>
<b>Net increase in cash and cash equivalents</b>	<b>\$ 1,445,565</b>	<b>\$ 14,590,401</b>
Cash and cash equivalents, July 1	25,942,972	11,352,571
<b>Cash and cash equivalents, June 30</b>	<b>\$ 27,388,537</b>	<b>\$ 25,942,972</b>
<b>Reconciliation of operating income to cash provided by operating activities</b>		
Operating income (loss)	\$ (5,050,786)	\$ 4,911,951
<b>Adjustments to reconcile operating income to net cash from operating activities</b>		
(Increase) decrease in accounts receivable	\$ (236,423)	\$ —
Increase (decrease) in accounts payable	666,397	3,839,341
Increase (decrease) in deferred revenue	226,370	180,310
Total adjustments	\$ 656,344	\$ 4,019,651
<b>Net cash from operating activities</b>	<b>\$ (4,394,442)</b>	<b>\$ 8,931,602</b>

## Medicare Supplement Program — Required Supplementary Information

The table below illustrates how the Medicare Supplement Insurance Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Medicare Supplement Insurance Fund for the last ten years as previous year's information becomes available. As of June 30, 2003, only 30 months of data were available. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's or period's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's or period's other operating costs of the fund including overhead and claims expense not allocable to individual claims. (3) This line shows the fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year); some of these amounts are unavailable. (4) This section shows the cumulative amounts paid as of the

end of successive years for each policy year; some of these amounts are unavailable. (5) This section shows how each policy year's incurred claims increased or decreased as of the end of successive years; some of these amounts are unavailable. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive fiscal and policy years.

### Ten-Year Claims Development Information (expressed in thousands)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
(1) Required contribution and investment revenue earned (fiscal year)	—	—	—	—	—	—	—	20,145*	44,015	34,762
(2) Unallocated expenses (fiscal year)	—	—	—	—	—	—	—	2,375*	4,887	5,433
(3) Estimated incurred claims and expenses, end of policy year	—	—	—	—	—	—	—	28,163	32,387	**
(4) Paid (cumulative) as of:										
End of policy year	—	—	—	—	—	—	—	23,657	27,205	**
One year later	—	—	—	—	—	—	—	28,536	**	
Two years later	—	—	—	—	—	—	—	**		
Three years later	—	—	—	—	—	—	—			
Four years later	—	—	—	—	—	—				
Five years later	—	—	—	—	—					
Six years later	—	—	—	—						
Seven years later	—	—	—							
Eight years later	—	—								
Nine years later	—									
(5) Reestimated incurred claims and expenses:										
End of policy year	—	—	—	—	—	—	—	28,163	32,387	**
One year later	—	—	—	—	—	—	—	28,623	**	
Two years later	—	—	—	—	—	—	—	**		
Three years later	—	—	—	—	—	—	—			
Four years later	—	—	—	—	—	—				
Five years later	—	—	—	—	—					
Six years later	—	—	—	—						
Seven years later	—	—	—							
Eight years later	—	—								
Nine years later	—									
(6) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	—	—	—	—	—	—	—	460	0	**

— Coverage was fully insured through December 2000

\* Amounts only represent a 6-month fiscal period

\*\* Data not available